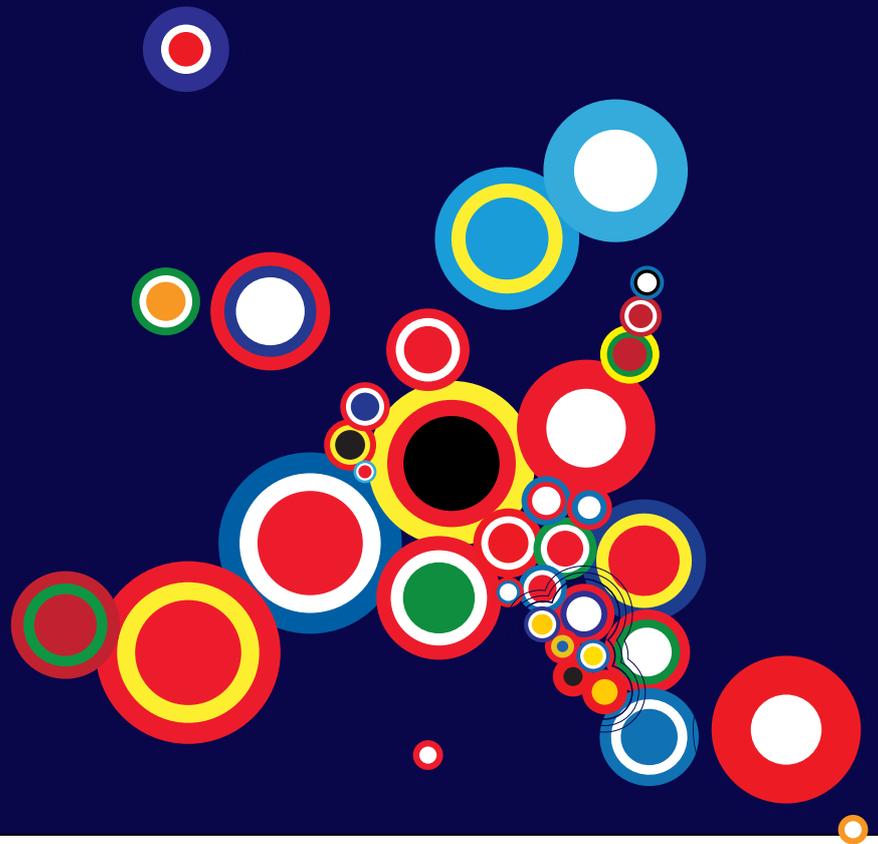




ANNEX 1

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



INDICATIVE STRATEGY PAPER FOR **BOSNIA AND HERZEGOVINA** (2014-2017)

ADOPTED ON 15/12/2014

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1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014 - 2017 to support Bosnia and Herzegovina on its path to EU accession. It analyses the effects of the political stalemate regarding the implementation of the Sejdić-Finci ruling of the European Court of Human Rights¹ and the still outstanding agreement on a comprehensive EU coordination mechanism on the planning and implementation of Instrument for Pre-accession assistance (IPA II) assistance. It takes account of the difficult socio-economic environment in Bosnia and Herzegovina, which leads to increasing dissatisfaction amongst the citizens, culminating in the social unrests of February 2014.

The Instrument for Pre-accession Assistance (IPA II)² is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with the implementation and the adoption of the Union acquis, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In the absence of a comprehensive EU coordination mechanism, assistance for Bosnia and Herzegovina shall concentrate on sectors, where agreed strategies and sufficient sector coordination exist and will take into account the capacities of Bosnia and Herzegovina to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meet the needs of citizens, in particular minorities and vulnerable people, the civil society, and the private sector. However, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions (IFI). In view of the above aspects, preference shall be given to providing financial assistance under a sector approach where possible, to ensure a more long-term, coherent and sustainable approach, to allow for increased ownership, to facilitate cooperation among donors, to eliminate duplication of efforts and to bring greater efficiency and effectiveness.

¹ The Sejdić-Finci vs. Bosnia and Herzegovina case, December 2009, regarding ethnic discrimination for representation in the institutions of the country for persons not belonging to one of the three constituent peoples (Bosniak, Serb and Croat).

² Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II), OJ L 77, 15.03.2014, p. 11.

With a view to delivering on the priorities set for EU financial assistance for Bosnia and Herzegovina for the coming four years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds in 2014 to 2017.

This Strategy Paper shall be reviewed in 2017 and revised as appropriate. It may also be revised at any time by the initiative of the European Commission.

2. Consultation on this Strategy Paper

This strategy paper was prepared in partnership with the authorities of Bosnia and Herzegovina. The State level and Entity Prime Ministers, the National IPA Coordinator (NIPAC), line Ministers at State and Entity level and representatives of the civil society contributed to the preparation of this strategy. Specific consultations on the strategic orientation of the strategy paper were organised with the joint EU-Bosnia and Herzegovina working group, a number of civil society organisations, EU Member States, other donors and international organisations in Sarajevo.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

Bosnia and Herzegovina is a country with a surface area of 51,209 km² and with an estimated population of 3.9 million people.³ The population has declined due to the 1991-1995 war that devastated the country. Today 110,380 are still refugees or internally displaced persons⁴. The largest city is the capital, Sarajevo, which is home to approximately 400,000 people.⁵ The constitutional set-up stems from the Annex IV to the Dayton/Paris Peace Agreement (DPA) and establishes a complex political structure that provides for governments⁶ at State, Entity, Brčko District and cantonal levels.

Governance in Bosnia and Herzegovina is built on a highly decentralised and very costly structure with competences divided between the State level, Entities, cantons and municipalities and facing a lack of functional coordination and policy-making mechanisms and processes. The fractured planning and budgeting processes, the lack of clear accountability and oversight lines and mechanisms, and the division of competences and responsibilities continues to undermine the efficiency and effectiveness of delivery of public services and state governance as a whole.

The fragmentation of the judicial system and of the law enforcement sector aggravates the fight against endemic corruption and organised crime. Lengthy civil procedures, insufficient enforcement mechanisms and complex administrative laws cause legal uncertainty for citizens

³ Figures are based on EUROSTAT data of 2006/2007. According to the last census in 1991, the population was 4.4 million.

⁴ UNHCR, December 2013

⁵ 526,000 inhabitants according to the 1991 census.

⁶ For the purpose of this document, the general reference to "government" does not preclude the constitutional and legal position of executive power in BiH.

and enterprises and are not conducive to economic growth and the attraction of foreign investments.

Legal provisions guaranteeing woman's rights and gender equality are in place, however resources of the institutional mechanisms for ensuring gender equality remain insufficient. Women's political participation and their participation in the labour market remain low. Laws and strategies against family violence are in place, but their countrywide harmonisation is not ensured. The financing of shelters for victims of domestic violence increased, but remains insufficient. Bosnia and Herzegovina continues to be a country of origin, transit and destination for the trafficking of women, with a majority of trafficking for sexual exploitation, begging and forced marriages.

As a small open economy, Bosnia and Herzegovina is highly dependent on developments in foreign markets. Export-oriented sectors continue to play an important role in the country's development, and tend to be key drivers of its economic outcomes. Recent global developments and the way they affected the economy indicate that a recovery in foreign markets, predominantly in the processing industries, should continue to drive recovery of Bosnia and Herzegovina's economy in the medium-term. In particular, manufacturing sectors such as base metals, metal products, machines, instruments, and wood products are the most important components of export and at the same time basic inputs for industrial production of EU countries. Chemical industry is another important sector, also highly dependent on global developments. The energy sector, not severely affected by the crisis, could make significant positive contributions to Bosnia and Herzegovina economic growth, both directly as well as indirectly as the recovery of major industries increases domestic demand for energy. However, this would depend on significantly improved cooperation between the Entities as regards security of supply, effective functioning of the electricity distribution company, integrated energy markets, and full independence of regulatory bodies. The expected recovery in housing construction would accelerate growth in production of construction materials in the medium term. In addition, the failure of domestic producers to meet the quality standards required by the accession of Croatia to the EU, albeit limited to some agricultural products, puts an additional break on export expansion.

As sufficient fiscal space had not been created in the years prior to the crisis and high spending commitments had prevailed, public finances came under severe stress when revenues declined in 2009 because of the economic contraction, and Bosnia and Herzegovina had to resort to the international community for external support. Fiscal adjustment measures agreed with the International Monetary Fund (IMF) and the World Bank contributed to a gradual consolidation of public finances in 2010-2011. However, fiscal imbalances increased again in 2012 linked to the worsened external environment and downturn in economic activity. In 2013 the consolidated budget deficit decreased to 1.0% of GDP compared with 1.9% in 2012. In September 2012, the IMF Board approved a 2-year Stand-By Arrangement (SBA) totalling SDR 338 million (Euro 405.3 million) and aiming to counter the effects of the worsening external environment, strengthening fiscal sustainability and improving the resilience of the financial sector. In January 2014 the Executive Board approved a 9-month extension and augmentation of the SBA by Euro 153.1 million, to meet additional financing needs that arise mainly in late 2014. Following a delay since February, the combined sixth and seventh reviews under the IMF SBA were successfully completed in June 2014. An augmentation of the IMF SBA by EUR 95.7 was also approved by the IMF Executive Board to meet the country's urgent balance of payments need caused by severe floods in May 2014. This enabled a further disbursement of Euro 191.4 million, which brought the total disbursements under the arrangement to Euro 478.5 million.

Despite tentative signs of recovery, labour market conditions are still extremely difficult. Unemployment remains very high at 44.5% in 2013, however, declining by some 1-percentage point from the previous year. The number of employees in the public administration continues to rise throughout 2013 and the first five months of 2014, thus further increasing the size of the already large public sector, reaching some 27% of total employment. Unemployment is particularly high among the young population (59.1% for people aged between 15 and 24, according to the LFS) and the labour market participation of women is low. The education system does not sufficiently respond to the needs of the labour market and life-long learning concepts are not developed. The economic crisis has increased the social exclusion and social protection risks for vulnerable groups, from which Roma continues to be the most vulnerable. Refugees and internally displaced persons still have problems with economic reintegration and access to health care, while the non-portability of social protection rights and pension rights between the entities remains one of the main obstacles to sustainable return.

The private sector in Bosnia and Herzegovina only slowly recovers from the effects of the economic crisis. In addition, the severe flooding of May 2014 is estimated to have caused damages and losses at 15% of GDP and the economy is expected to contract in the short run. There will also be a further strain on public finances, raising the fiscal deficit, while the trade deficit is also likely to come under pressure after it had substantially decreased in 2013 to 30.5% of GDP. The low foreign investment rate (1.9% of GDP in 2013), among the lowest in the region, aggravates the situation. The failure to put in place structural and institutional reforms has significantly hampered economic progress. A complex legal and regulatory framework and non-transparent business procedures pose serious obstacles for domestic and foreign investment. The Small and Medium Enterprise (SME) sector remains the backbone of Bosnia and Herzegovina's economy, but struggles to develop into a fully competitive and sustainable force and suffers from administrative and regulatory burdens.

As an immediate response to the socio-economic concerns of the citizens of Bosnia and Herzegovina, the EU launched in May 2014 the Compact for Growth initiative through a Forum on Prosperity and Jobs. The conference and subsequent follow-up events in July identified economic policy measures, the so-called Compact for Growth, which target key economic issues including on labour market, business environment, investment, corruption, and social protection targeting. It is expected that the political parties in their economic programmes will take up these measures.

2. Context for the planning of assistance

2.1 Country-specific enlargement strategy

Bosnia and Herzegovina is a potential candidate for EU membership. The Stabilisation and Association Agreement (SAA) between the EU and Bosnia and Herzegovina was signed in June 2008 and is ratified by all Member States. The Interim Agreement (IA), which focuses on trade and other Community related competences entered into force in July 2008. The SAA has not yet entered into force because Bosnia and Herzegovina does not meet the remaining requirements, notably a credible effort in implementing the European Court of Human Rights judgement in the Sejdić-Finci case. Therefore, the EU relations with Bosnia and Herzegovina remain governed by the IA, whose implementation is however uneven. Although in some areas implementation is progressing smoothly, the country is in breach of the IA/SAA due to non-compliance with the European Convention on Human Rights (Article 1 of the IA) and with the rules on State Aid (Article 36 of the IA). Bosnia and Herzegovina therefore needs to step-up its efforts to address these obligations under the IA/SAA.

In 2011, the Commission launched a High Level Dialogue on the Accession Process (HLDAP) with representatives of the authorities and political parties of Bosnia and Herzegovina. The purpose of the HLDAP is to start a process of explaining what EU accession requires both in political and technical terms. Also in 2011, the Commission launched the structured dialogue on justice⁷ to assist Bosnia and Herzegovina in consolidating an independent, effective, efficient and professional judicial system.

The new EU enlargement strategy acknowledges that the accession process today is more rigorous and comprehensive than in the past, not only due to the evolution of EU policies but also due to lessons learned from the previous enlargements. A key lesson from the past is the importance of addressing the fundamentals first.

The rule of law will remain at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in the accession negotiations. Bosnia and Herzegovina will have to sustain the momentum of reforms over time in the key areas of the rule of law, particularly judicial reform and anti-corruption policy, independence of key institutions, freedom of expression, anti-discrimination policy, the protection of minorities, and develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights will be essential in this regard.

The global economic crisis has underlined the need for all countries to strengthen their economic governance, improve competitiveness, and create a more stable and transparent business environment to attract investments and stimulate growth. The enlargement strategy sets out proposals to support this aim, including enhancement of economic policy and its governance through the introduction of annual National Economic Reform Programmes, and biennial Competitiveness and Growth Programmes as well as action plans for public financial management.

There is also a need to more intensively strengthen democratic institutions and make democratic processes more inclusive. Further progress with public administration reform and a stronger role for civil society are key in this respect, as are cross-party platforms for EU integration.

Finally, good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association process.

2.2 Relevant national strategies

Strategies exist for most of the sectors mainly at the level of the Entities and Cantons, to a lesser extent at the State level. However, most strategies are not harmonised and do not provide for a countrywide implementation of the EU *acquis*. The few exceptions are the Public Administration Reform (PAR) Strategy, the Justice Sector Reform Strategy (JSRS), the National War Crime Strategy (NWCS), the Strategy for the Implementation of the annex

⁷ The Structured Dialogue on Justice is a mechanism, which aims to advance structured relations on the rule of law with potential candidate countries, even prior to the entry into force of the Stabilisation and Association Agreement (SAA). The Structured Dialogue will therefore assist Bosnia and Herzegovina to consolidate an independent, effective, efficient and professional judicial system. At the same time, the Dialogue helps the country move further along its path towards the EU.

VII of the Dayton Peace Agreement (Refugees and Internally Displaced Persons, including the Sarajevo Process), the Roma Strategy, and the Strategy for Development of Statistics of Bosnia and Herzegovina 2020. Some of the strategies expired or will expire before IPA II starts and need to be updated. Common to the most strategies is that they are not based on a country development strategy or European integration strategy, they are not budgeted, no medium term expenditure and performance management frameworks exist, and only limited sector and donor coordination is available.

Former EU assistance delivered a number of draft strategies (e.g. the country development strategy, the SME development strategy); however there is no political agreement to adopt and implement them.

At the regional level, Bosnia and Herzegovina signed up to the South-east Europe Transport Observatory (SEETO), which was identified as the indicative extension of the Trans-European Transport Network (TEN-T) into the Western Balkan region, and to the targets of the South East Europe 2020 (SEE 2020) strategy.

Bosnia and Herzegovina is part of two EU macro-regional strategies, namely the EU Strategy for the Danube Region (EUSDR) and the EU Strategy for the Adriatic and Ionian Region (EUSAIR). These strategies seek to bring together both EU Member States and non-EU countries to address common challenges and potentials in the concerned macro-regions. They are focusing on improved connectivity of transport and energy networks, better environmental protection, sustainable tourism actions, and socio-economic development measures in the geographically specific context, and they aim to improve the cooperation with EU Member States and to facilitate the preparation of candidate and potential candidate countries for EU integration.

2.3 Conditions for managing IPA II funds

In order to benefit from support through a sector approach, existing strategies should be based on a budget, a medium term expenditure and performance management framework, should address sector and donor coordination and, in the particular case of Bosnia and Herzegovina, should facilitate a countrywide harmonised implementation of the EU *acquis*. None of the sectors envisaged for support by the new instrument appears at present suitable for support through a sector approach. However, the EU will continue to support the preparation and gradual implementation of suitable strategies. In particular, EU assistance aims to create the capacities for strategic planning and the preparation for sector support. Until sectors are mature for support through a sector approach, the assistance will be provided through stand-alone actions, prepared in line with valid strategies.

IPA funds in Bosnia and Herzegovina will be managed mainly through direct management. Bosnia and Herzegovina has not made the necessary preparations for indirect management of EU assistance.

Bosnia and Herzegovina will be eligible for sector budget support, if the following four pre-conditions are met: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies consistent with the EU accession strategy. Once these conditions are in place, sector budget support can be provided in those sectors where there is a good strategic basis for implementation of reforms.

2.4 Donor coordination and complementarity with other EU assistance

The main donors in Bosnia and Herzegovina are the European Union, Germany, Sweden, Switzerland, Norway, the United States and the United Nations. Many EU Member States provide targeted assistance in specific sectors. The IFIs – the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW), and the World Bank - provide loans for the development of Bosnia and Herzegovina's economy.

The responsibility for donor coordination in Bosnia and Herzegovina is split between the Directorate of European Integration (DEI) for EU donors, and the Ministry of Finance and Treasury (MoFT) for other donors and IFI. Consultations with donors take place also at lower levels of government. The MoFT regularly organises Donor Coordination Forum meetings and publishes annually donor-mapping reports showing the donors active in Bosnia and Herzegovina and setting out their contribution by sector.

Moreover, the EU Delegation holds regular coordination meetings with EU Member States (MS) to exchange policy views and to streamline the EU and MS assistances for Bosnia and Herzegovina to be coherent and complementary.

The EU Delegation cooperates with other donors through its regular participation in the Donor Coordination Forum meetings, which are organised two to three times a year by the MoFT. In addition, in the sectors justice and anti-corruption, where the EU is a lead donor, it organises more frequently donor sector coordination meetings, and it closely cooperates with the United Nations (UN) family organisations and the IFIs on joint projects in Bosnia and Herzegovina.

2.5 Consistency with EU policies

Financial assistance in the priority areas identified in this strategy paper will be granted in line with and in support of the enlargement strategy for Bosnia and Herzegovina. It will be shaped to be consistent with EU policies in the same area, in particular with the Europe 2020 strategy and applicable macro-regional strategies EUSDR and EUSAIR, the flagship initiatives of the EU to boost growth and jobs, as well as the climate policy objectives of the EU. The objectives set until 2017 reflect the level of economic development and the stage in the accession process of Bosnia and Herzegovina.

The objectives agreed under the SEE 2020 Strategy are important benchmarks for the reform efforts of Bosnia and Herzegovina and financial assistance under IPA II will be used by Bosnia and Herzegovina to support meeting these benchmarks.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

Bosnia and Herzegovina is on a standstill on its European pre-accession path. Despite the EU's efforts, Bosnia and Herzegovina's political leaders could not agree on the implementation of the Sejdić-Finci ruling of the European Court of Human Rights and on the establishment of a comprehensive EU coordination mechanism. As the Commission concluded in the 2013 Bosnia and Herzegovina Progress Report, it is becoming increasingly difficult to justify providing pre-accession funds to a country whose political representatives are not willing to reach consensus necessary to move forward on the pre-accession path. Without such consensus, there is a strong risk that pre-accession assistance will not produce the expected results.

To mitigate these risks, the Commission concluded that in the absence of a comprehensive EU coordination mechanism, which is a pre-condition for supporting reforms in areas where competences are shared between different levels of Governments, a full-scale support is not justifiable. Furthermore, the Commission conditioned the investments, in particular in transport and environment infrastructure, to the adoption of countrywide sector strategies.

At the same time, the Commission intends to ensure continuity of its support on the fundamentals of the EU integration process (rule of law, democracy, fundamental rights, economic governance, and the legacy of the past), as well as to civil society, citizens, notably including vulnerable people, and the private sector. The Commission thus signalled that the EU is not walking away from Bosnia and Herzegovina, but that it demands political commitment to the European Integration process.

In the absence of a comprehensive EU Coordination mechanism, the Commission concentrates on those sectors where agreed strategies and sufficient coordinating structures exist⁸. In parallel, work will continue to help Bosnia and Herzegovina developing countrywide strategies in other sectors and setting up the relevant coordination structures thus building up a comprehensive coordinating mechanism on EU matters. These efforts will be supported both through the continued policy dialogue between the Commission and Bosnia and Herzegovina and through IPA funds.

A lesson learned from the programming and implementation of previous and on-going EU assistance is that political commitment and ownership of the reform process is an indispensable precondition for success. In view of this lesson, and in accordance with the Paris declaration on aid effectiveness, support will be based on Bosnia and Herzegovina's own sector reform strategies. Where such strategies do not exist, IPA II will support the development, the adoption and the implementation of the strategies. Funds for the development of countrywide strategies will be available in the European Integration Facilities foreseen under each annual IPA programme 2014-2017. Short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) will also continue in all sectors.

The Commission stands ready to initiate the inclusion of further sectors for IPA support in this Strategy Paper, including where justified with the allocation of additional funds when Bosnia and Herzegovina adopts the relevant countrywide strategic documents.

Governance in Bosnia and Herzegovina is highly decentralised, with competences divided between the State level, Entities, cantons and municipalities. IPA assistance respects the constitutional competences and the division of responsibilities among the different levels of government, as well as the specific needs of different actors at various levels involved in programming, managing and implementing pre-accession assistance.

For the period 2014-2017 pre-accession assistance will fall under the following two pillars:

⁸ These are the Justice Sector Reform Strategy (JSRS), the National War Crimes Strategy (NWCS), the Public Administration Reform (PAR) Strategy, the Strategy for the Implementation of the annex VII of the Dayton Peace Agreement (Refugees and Internally Displaced Persons, including the Sarajevo Process), and the Roma Strategy. A number of development strategies addressing local SME's priorities and relevant for local integrated development have been adopted at municipal, cantonal and entities level. The JSRS already expired and the PAR Strategy will need to be updated and the process of renewing them is ongoing.

Democracy and Rule of Law

This first pillar will cover two key sectors: democracy and governance, and rule of law and fundamental rights.

Democracy and Governance

Governance and public administration reform are key priorities in the enlargement strategy. Strengthened democratic institutions, an inclusive democratic process, a strong role for the civil society and further progress with electoral, parliamentary and public administration reforms are key for the accession process.

Bosnia and Herzegovina's public administration and in particular its economic governance have to improve to prepare the country for the adaptation of the challenges of EU integration and the economic coordination mechanisms in the EU and to ensure a more efficient, effective and accountable delivery of services to citizens and businesses. This includes the need for further overall reform of public administration, including among others improved policy planning and coordination, more efficient public service management and a comprehensive public financial management reform. Corruption remains a serious problem in Bosnia and Herzegovina's public sector. Governments have to strengthen their integrity frameworks to create an effective and accountable public sector and to enhance the prevention, detection and repression of corruption via relevant legislation, institutions and civil society partners.

The focus of IPA II assistance will be on the implementation of principles of good governance and improving the public sector management, in particular to strengthen economic governance, public financial management, public service delivery and administration reform, as well as on the fight against corruption. In addition, the statistical system needs to be considerably strengthened.

Rule of law and fundamental rights

The rule of law is at the centre of the enlargement strategy. As a potential candidate, Bosnia and Herzegovina has to ensure that its judiciary is independent, impartial, efficient and accountable, and that its law enforcement agencies have the capacity and support to fight corruption and organised crime. While there have been improvements in the judicial efficiency, a large backlog of civil and criminal cases remain. Moreover, non-harmonised criminal and civil court practice and weaknesses in enforcement impair the judiciary. The fractured budgetary organisation and interferences by other branches of government undermine its independence. Similarly, there are concerns on the efficiency and independence of the law enforcement due to undue political influence on operational policing, patronage and corruption. The insufficient cooperation between law enforcement agencies and prosecution services impairs their preparedness to fight corruption, economic and organised crime.

The protection of fundamental human rights (e.g. freedom of expression, rights of women, disabled, minorities such as Roma and lesbian, gay, bisexual, transgender and intersex (LGBTI) people, children and other) needs to be enhanced. Despite the legal framework is in place, its implementation and enforcement remains uneven. In particular, political and financial pressure on the media has increased and intimidation and threats against journalists and editors as well as polarisation of media along political and ethnic lines are a matter of concern.

The focus of IPA II assistance will be on enhancing the effectiveness, accountability and the efficiency of the judiciary, enhancing justice for citizens, fighting against organised crime and corruption, prosecuting war crimes, and on the enforcement of fundamental rights.

Competitiveness and Growth

This second pillar will cover two key sectors, competitiveness and innovation, local development strategies and education, employment and social policies.

Competitiveness and innovation, local development strategies

A lesson learned from the implementation of assistance for social and economic development is that the Commission has to change the strategic approach for the delivery of assistance. A continuation of the traditional approach of promoting change via the development of strategies and policies at State and Entity level is unlikely to lead to the desired results. Rather IPA II will focus on providing support to partnerships for economic and social development at the local level, building on the existing local development strategies and the operational structures involved. An integrated approach aimed at strengthening SMEs competitiveness and innovation, including through increased research capacity, employment and job creation, as well as social inclusion, building on partnerships at local level, including municipalities, SME, education and training institutes, as well as civil society, is more likely to create a dynamic for economic and social development in Bosnia and Herzegovina. This approach will also allow providing support for the development of rural areas in the absence of progress regarding the instrument for pre-accession assistance in rural development (IPARD), as well as addressing issues of economic sustainability in focal areas for return and displacements.

Education, employment and social policies

Unemployment remains very high, in particular amongst youth, and grey economy and informal employment are common. The education systems do not sufficiently respond to the needs of the labour market and labour and employment institutions lack capacity to implement active labour market measures. Social services lack capacity to evaluate the needs of vulnerable and financing to provide the appropriate support.

The already complex education system lacks policy coordination. Qualification standards are not systematically applied. There are no comprehensive policies to address social inequality and inclusive education, therefore the access of vulnerable children to education is limited. A reform of the education, employment and social sectors is indispensable for the social and economic recovery of the country. IPA II will focus on the reform of labour and employment institutions, the development of active labour market measures, the reform of the education system and the further development of a coordinated needs based approach for social services.

Finally, while programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action in many of them parallel. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, anti-discrimination, strengthening of democracy, human rights and civil society participation, as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

In addition to assisting the above areas, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the accession process, which do not fall under the aforementioned priority sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) and through Twinning.

Through its participation in macro-regional strategies, Bosnia Herzegovina aims at improving transport and energy networks; encouraging more sustainable energy and better

environmental quality, promoting sustainable tourism, supporting capacity building for both private and public sectors, and SMEs development. Moreover, education, skills, and the Knowledge Society development (research, ICT) will also be privileged.

The indicative financial allocations per policy area and sector, resulting from the priorities defined in this strategy paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2017

1. Democracy and governance

1.1. Needs and capacities in the sector

Bosnia and Herzegovina is implementing the **Public Administration Reform (PAR)** strategy from 2006 and the associated action plan from 2011. The strategy is however not budgeted; its funding depends on the PAR fund, which Denmark, Sweden and Norway sustain with donations. The strategy is due to expire in 2014. The pace of public administration reform remains slow and shows weaknesses in various areas, including policy planning and coordination, human resources management, budget processes, transparency and vertical coordination. A new, comprehensive public administration reform strategy is needed, covering also the functioning of EU integration structures within the various levels of government to strengthen the administrative capacity of the country in dealing with EU matters and responsibilities. As regards service delivery to citizens and businesses, the lack of a harmonised and modernised legal administrative framework negatively affects the quality of public services delivery at all administrative levels. The development and implementation of coherent standards and common administrative practices across the entire public administration body still need to be addressed.

Corruption remains a serious problem in Bosnia and Herzegovina's public sector. Governments have to strengthen their integrity frameworks to create an effective and accountable public sector and to introduce and respect accountability as a concept.

The global economic crisis of the past five years has underlined the need for Bosnia and Herzegovina to fundamentally review and strengthen its **fiscal and economic governance** to return to sustainable growth, to address the challenges of meeting the Copenhagen criteria and to improve competitiveness. In order to provide a sustainable basis for economic reforms, Bosnia and Herzegovina needs to implement a more comprehensive **public financial management** reform as part of the public administration reform. A public financial management reform programme (a strategy and an action plan), which would set the basis for prioritising and sequencing the necessary reform actions in different parts of the public financial management system, including in revenue administration, budget planning, budget execution, public debt management, accounting and reporting, public procurement, public internal financial control and external audit, is not yet in place. Gaps remain in these various public finance sub-systems. There is a need for development of timely, informed and effective fiscal policies, implementation of internal control, the implementation and follow-up of external audits and the implementation of the indirect taxation reform.

The **statistical system** does not produce sufficiently reliable data on the population, on economic, macro-economic and trade statistics and national accounts. Reliable data remain crucial to support the social and economic development of the country. Four independent institutions operate the quality infrastructure (QI) management. There is no coordination system and no strategic framework for the development of the QI system.

The Commission grants great importance on the involvement of **civil society** in the pre-accession process, thus also contributing to foster the citizens' understanding of the reforms that Bosnia and Herzegovina needs to complete to qualify for EU membership. This should also help ensuring EU accession is a broad based and well-understood process, which is ultimately crucial to achieving a well-informed decision on EU membership at the end of the pre-accession process.

1.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina to implement principles of good governance and to improve its public sector management, in particular to strengthen public administration reform, including public service delivery, economic governance and public financial management. A key objective is to support Bosnia and Herzegovina with a comprehensive public financial management reform in order to have a sound basis for socio-economic and structural reforms. Thereto closely related is the planned support for the statistical system to improve its capacities to produce reliable statistics.

As concerns the fight against corruption, EU assistance will help to introduce integrity management in the public sector.

Further EU assistance will support the parliamentary assemblies and the civil society to take a key role in the accession process.

The expected results are the following:

- The public administration has improved capacities to ensure a more efficient, effective and accountable delivery of services to citizens and businesses, including sound administrative procedures and e-government services.
- Bosnia and Herzegovina will have improved capacities for public financial management, including more efficient revenue administration and collection, budget preparation and execution, public debt management, public procurement, public internal financial control and external audit. Systematic follow-ups to external audits, prepared by independent audit institutions, should be the rule.
- The statistical system will have the capacities to produce reliable macro-economic, business, social and demographic, financial and agricultural statistics.
- Regional statistical classification (harmonized with the nomenclature of territorial units for statistics (NUTS) regulation) should become available.
- The external trade index, a harmonised index of consumer prices and business statistics, should improve.
- Prevention, detection and repression of corruption via relevant legislation, institutions and civil society partners will improve.
- The cooperation between civil society organisations and public institutions will improve.
- Capacities of civil society organisations to increase their autonomy, representativeness and accountability, as well as their membership base, fundraising and effectiveness, will be strengthened.

- The capacity of the country (public administration, civil society, statistical system) to be actively involved in, hence to benefit from the implementation of macro-regional strategies, will improve.

To support Bosnia and Herzegovina achieving these targets, IPA II will provide technical assistance for capacity building, process optimisation and information technology (IT) and will support the integrity management within the public sector to stimulate and enforce integrity and to prevent corruption.

Bosnia and Herzegovina will receive support in preparing a **National Economic Reform Programme** and in developing a **Competitiveness and Growth Programme** in order to accelerate sector reforms in key economic growth areas such as transport, telecoms and energy, all aimed at enhancing Bosnia and Herzegovina's competitiveness, unlocking investments, growth and employment.

IPA II will support coordinated fiscal development and enforcement, assist treasuries to introduce commitment controls, and provide capacity building to ministries of finance. Investment support for the quality infrastructure (QI) system will be conditional to the adoption of a joint strategic framework. The support for the strengthening of the statistical system, in particular to produce reliable macro-economic, business, social and demographic, financial and agricultural statistics, will continue.

Subject to the adoption of a European integration strategy, further support will be provided to the different parliamentary assemblies to strengthen their ability to effectively cope and address the demands of the EU integration process, to extend their legislative and technical capacities as well as their ability to effectively interact with the relevant counterparts.

As concerns civil society, the Commission will offer a combination of political and financial support to meet these objectives, employing a more strategic, effective and results-focused approach to deliver maximum impact. The approach, including indicators and baselines and targets, will be specified in the Guidelines for EU support to civil society in enlargement countries in the period 2014-2020. Results and indicators will be monitored on annual basis.

In its political contacts, the Commission will encourage enlargement beneficiaries to make legislation more conducive for civil society. It will also promote the involvement of civil society in the pre-accession process, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance. The financial support under the civil society facility will be provided both from the national and multi-beneficiary programmes. An appropriate mix of funding instruments will be used to respond to different types, needs and country contexts in a flexible, transparent, cost-effective and results focused manner across the sectors. This will include: aiming for longer term contracts, recognising that capacity building and advocacy work requires time and resources; moving away from project based support to a more flexible approach that fosters partnership and coalition building; and doing more to reach out to grass-root organisations, in particular through re-granting and flexible support mechanisms to respond to their immediate needs. Civil society will also be supported under different sectors through measures enhancing its role and capacities to participate actively in formulation and implementation of sector strategies for EU financial assistance.

Under the multi-beneficiary IPA programme, complementary support to horizontal public administration reform area is provided through cooperation with the Support for Improvement in Governance and Management instrument (SIGMA) of the Organisation for Economic Co-operation and Development (OECD) and the Regional School of Public Administration. In

the area of statistics, Eurostat will continue providing support to statistical offices. In addition, customs and taxation may be considered for additional support under the multi-beneficiary programme to improve regional cooperation.

There is a need for a flexible instrument, a **European Integration Facility**, which can react to short-term developments and provide necessary assistance and capacity building support to the authorities in Bosnia and Herzegovina at various levels. It will assist in the SAA implementation, *acquis* adoption, projects preparation and implementation, as well as reinforcing the institutional capacity for SAA implementation and absorption and management of IPA funds.

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (EC)
- Composite indicator Government Effectiveness (WB), Burden on Government Regulation (WB) and Regulatory Quality (WB)
- Statistical compliance (Eurostat)

1.3 Types of financing

Assistance will be provided primarily through twinning, technical assistance, blending, grants and supplies of equipment under the national IPA programmes.

The TAIEX instrument provides ad hoc and short-term technical assistance. EU programmes, the Hercule III (promoting activities against fraud, corruption and any other illegal activities affecting the financial interests of the Union), Pericles 2020 (protection of the euro against counterfeiting), Fiscalis 2020 (contributing to the fight against tax fraud and revenue collection) and Customs 2020 are relevant for this sector. Bosnia and Herzegovina can benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

1.4 Risks

The main risk to the reform of the public sector is the lack of political will and agreement amongst political leaders to pursue the necessary reforms. To mitigate the risk the Commission and Bosnia and Herzegovina started in 2011 the High Level Dialogue on the Accession Process. Another relevant risk is the absence of domestic budget allocated to the public administration reform. The donor driven public administration reform fund is currently compensating the lack of domestic budget, but donors are phasing out and Bosnia and Herzegovina's own financial commitment will be essential for the success and the sustainability of the public administration reform. Finally, the Governments disregard of the civil society's crucial role in the democratisation and accession process might also hinder the reform process. To mitigate such risk, the Commission will provide capacity building for governments and the civil society to pursue a stronger policy dialogue.

2. Rule of law and fundamental rights

2.1 Needs and capacities in the sector

Justice and home affairs

The EU support for the judiciary has deepened and broadened over the past years, gradually moving from criminal law, particularly war crimes case processing, to encompass aspects of civil law, not least on judicial efficiency and the reduction of the case backlog. With

significant EU support, courts and prosecutor offices throughout Bosnia and Herzegovina benefitted from information technology investments, as well as a Case Management System (CMS) available to over 5000 judicial users. An online judicial document system was established providing access to over 10,000 judicial acts.

However, more reforms are needed. The backlog of civil and criminal cases needs to be further reduced to increase judicial efficiency. Effectiveness should be enhanced by a more harmonised criminal and civil court practice in all four jurisdictions, as well as application of proper enforcement.

Common shortcomings may be found in the organisational set-up, inter-institutional cooperation as well as capacities across the rule of law sector in BiH.

With regard to the judicial system, weaknesses are apparent in the management, strategic and budgetary planning capacities. Staffs require better skills and know-how in the investigation, prosecution and adjudication of relevant cases, which should be enhanced through an improved training infrastructure. Furthermore, structural and procedural weaknesses undermine the judicial system's accountability and its ability to sustain its independence towards the other branches of government.

Similarly, there are concerns about the efficiency and independence of the law enforcement sector itself due to undue political influence on operational policing, patronage and corruption.

Regarding the fight against organised crime and corruption, insufficient cooperation and coordination between law enforcement agencies and the prosecutions services significantly undermine the process. Similarly, cooperation and coordination on the exchange of criminal information and intelligence within the country are insufficient. In addition, the infrastructure and staff capacities in the execution of criminal sanctions are unsatisfactory.

With the help of EU assistance, Bosnia and Herzegovina has made some steps in improving its integrated border management system. However, it requires further development, also to support the implementation of asylum and migration policies over the years to come.

The most significant strategy for reform of the justice sector is the JSRS and its accompanying action plan, which expired in December 2013. The approval process of the JSRS is ongoing. Regarding criminal justice, the most significant strategy is the NWCS. Law enforcement strategies cover the fight against corruption and organised crime, the fight and prevention of money laundering, the suppression of human trafficking and abuse of illicit drugs as well as the integrated border management and asylum and migration strategies. A common policy framework is missing. The international community frequently coordinates its activities through coordination fora dedicated to justice sector dialogue and anti-corruption activities. In addition, a coordination mechanism chaired by the Ministry of Justice of Bosnia and Herzegovina follows the progress in the implementation of the JSRS. The main donors in the rule of law area include Sweden, Norway, the United States, UN, OSCE, Council of Europe, Switzerland and the United Kingdom.

Fundamental rights

The European Union is founded on common values and principles, including respect for fundamental rights. As well as the other enlargement countries, Bosnia and Herzegovina needs to undertake further reforms to ensure that the protection of the freedom of speech and the rights of persons belonging to minorities, including Roma and lesbian, gay, bisexual, transgender and intersex (LGBTI) people, are respected in practice, not just enshrined in law. Despite the legal framework for the protection of fundamental rights being in place,

implementation and enforcement remain uneven. The complexity of the country's political and institutional structures as well as budgetary constraints are the biggest policy challenges in this field.

2.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina enhancing **effectiveness, accountability and efficiency** in the justice and home affairs sector through supporting the improvement of strategic planning, through the creation of integrity frameworks and through better management of human resources.

Further support aims to enhance **justice for citizens** through the provision of modern technology, the improved access to justice for vulnerable, through enhancing procedural rights, through improving the execution of criminal sanctions and advancing the prosecution of criminal cases, in particular war crimes, organised crime and corruption cases. Another objective is enhancing **justice for growth** through the implementation of alternative dispute methods, improvements of administrative law, through facilitating the business registration process, and through reviewing the legal, procedural and implementation procedures to improve the enforcement of commercial laws and claims.

Further EU assistance aims to support the **fight against organised crime and corruption** through a better preparation of law-enforcement institutions, through enhancing police-prosecutor cooperation, and through developing a comprehensive recovery system to discourage corruption, financial crime and money laundering. Another objective is to support **border management** and the implementation of **asylum and migration** policies through introducing modern technologies, enhancing institutional cooperation, capacity building and establishing national referral systems.

Further support will be provided for the protection of **fundamental rights** through providing a monitoring and evaluation system for **human rights**, supporting the improvement of legal aid and minorities' access to justice. To support respect to **freedom of expression**, IPA II will provide capacity building, training and expertise to the relevant media bodies to develop investigative journalism and to improve professional journalistic standards.

The expected **results** are the following:

- The judicial efficiency will noticeably improve, in particular through the elimination of the backlog of civil and criminal cases.
- The independence of the judiciary will be assured and accountability improve.
- Every citizen will have access to justice, and, in particular for the vulnerable, the access will be free.
- The capacity and the quality of the execution of criminal sanctions will improve.
- Transparency, accountability and proactive intelligence-led policing on organised crime and corruption cases will be strengthened and the recovery of public funds will improve.
- The efficiency and co-operation between the law enforcement agencies and prosecution services will increase.

- The track record of investigations, prosecutions and final convictions in organised crime and corruption cases will be developed.
- The capacities to fight high-tech crime and cyber-crime will improve.
- The Integrated Border Management approach is implemented with improved capacities and strengthened cross-border and inter-agency coordination and improved risk assessment, data collection and data exchange systems.
- Migration, especially irregular migration, is efficiently managed, in line with EU requirements.
- Asylum processing and asylum management is improved in line with the EU requirements.
- The protection of fundamental human rights (e.g. freedom of expression, rights of women, disabled, minorities such as Roma and LGBTI, and children) will enhance.

To assist Bosnia and Herzegovina achieving the expected results, IPA II assistance will support the improvement of strategic planning, the creation of integrity frameworks and better management of human resources, thus enhancing effectiveness, accountability and efficiency in the justice and home affairs sector.

Assistance will contribute to enhancing justice for citizens through the shortening of civil procedures by using modern technologies, improving the access to justice for vulnerable, enhancing procedural rights, improving the execution of criminal sanctions, and advancing the prosecution of criminal cases, in particular organised crime and corruption cases, and to support the prosecution of war crimes. Linked to the war's legacy, further efforts will be undertaken to continue the identification of missing persons and to strengthen the relevant actors in the process.

Support will be provided for enhancing justice for growth through the implementation of alternative dispute methods, improvements of administrative law, its implementation and application, facilitating the business registration process, and reviewing the legal, procedural and implementation procedures to improve the enforcement of commercial claims and laws.

IPA II will support strengthening the fight against organised crime and corruption through a better preparation of law-enforcement institutions to address economic and financial crime and new forms of crime, such as high-tech and cybercrime, through enhancing police–prosecutor cooperation and through developing a comprehensive and harmonised asset recovery systems to discourage corruption, financial crime and money laundering.

IPA II will assist strengthening the capacity and quality of criminal sanctions mechanisms, including the introduction of alternative criminal sanctions.

Further assistance will address the border management system and the implementation of asylum and migration policies through introducing modern technologies, supporting enhanced institutional cooperation, capacity building and establishing national referral systems.

For the protection of fundamental rights, support will be provided, among others, for monitoring and evaluation systems for human rights; mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender and all other types of violence and pain-infliction in prisons. A further focus will be on improving legal aid and minorities' access to justice,

including Roma and other vulnerable groups; and on supporting of non-discrimination, gender equality, diversity, non-violent communication into education curricula, employment environments, health centres/institutions etc. With respect to freedom of expression and the media, assistance will support building up technical capacity, and provide training and expertise to the relevant media bodies in order to develop investigative journalism and to improve professional journalistic standards. Support in this respect will be based on the "Guidelines for EU support to media freedom and media integrity in enlargement countries, 2014-2020"

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (EC)
- Composite indicator Access to Justice (WJP) and Judicial independence (WEF)
- Composite indicator Global Corruption (TI) and Control of Corruption (WB)
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB)

2.3 Types of financing

Assistance will be provided primarily through twinning, technical assistance, grants, blending, work contracts and supplies of equipment under the national IPA programmes. In light of the sector's relative preparedness, budget support can be an option. The multi-country IPA programme provides complementary support in areas, where objectives can be better achieved at regional rather than national level, especially for fighting against organised crime (including cooperation between prosecutors), witness protection, border surveillance, migration management and management of emergencies. The TAIEX instrument provides ad hoc and short-term technical assistance.

EU programmes, the Justice programme (judicial cooperation in civil and criminal matters), the Rights and Citizenship (promoting fundamental rights and non-discrimination), and the Asylum and Migration Fund, are relevant for this sector and in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

2.4 Risks

There is a risk for delays in the implementation of the key strategies on judicial reform and anti-corruption. The organisational and administrative capacities are weak and affect especially inter-institutional coordination and cooperation in this area. To mitigate these risks, the Commission launched the structured dialogue in justice. Capacity building will support inter-agency cooperation to improve coordination and information sharing.

3. Competitiveness and innovation: local development strategies

3.1 Needs and capacities in the sector

Supporting economic and social development is one of the main objectives of the European integration process. The public protests and related facts of February 2014 confirm the need to address economic and social development. The ongoing economic and social crisis indicates that support for integrated measures to enhance competitiveness and growth at local level is much needed to create opportunities for economic recovery. IPA II will focus on the economic and social development at the local level, building on the ownership and partnership of local and regional stakeholders, including municipalities, private enterprises, in particular SMEs, and education, training and research institutions, cooperatives, development

agencies, non-governmental organisations and civil society. Local stakeholders have the potential to overcome obstacles to growth and development through cooperation and partnership focused on job creation, employment and social inclusion.

The assistance under this sector targets specific action relating to the socio-economic development, in cooperation with stakeholders, at local level. It thus differs (and complements) support for policy development, institution and capacity building to different levels of government provided under the sector Education, Employment and Social Policies.

The focus on integrated local development will address several challenges faced by Bosnia and Herzegovina. In particular, the level of competitiveness of the economy and agriculture remains low in comparison to EU Member States and most enlargement countries, unemployment is very high, in particular among youth, and a skill gap of the labour force is palpable, as education institutions do not sufficiently meet the needs of the labour market. In the SME sector, access to green products, innovative technology, business support services and finance for local entrepreneurship, access to broadband and digital skills, particularly for production and export-oriented SMEs, remains limited. The lack of jobs and employment in their communities threatens the sustainability of the support for refugee and internally displaced persons (IDP) return. The fragmented social inclusion and protection system exposes the most vulnerable to the risk of social exclusion, among them refugees, internally displaced persons and Roma.

Bosnia and Herzegovina does not have an overall development strategy. However, a variety of strategies exist which are relevant for the development at the local level. This includes SME strategies at the level of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), agricultural development strategy and rural development strategic plan at the level of RS, as well as local development strategies of municipalities both in the RS and the FBiH and regional development strategies of FBiH cantons.

The lack of cross-community contact, dialogue and facilities is strongly felt, in particular in areas where the population lives in close proximity but in ostensibly ethnically divided spaces. There is a need for encouraging cross-community interaction and development of common spaces.

3.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina's private sector development with a focus on the development of export-oriented sectors and the agro-rural and tourism sector. It aims to assist in the identification and preparation of investment projects and in obtaining local and international loan funding. A further objective is to improve SME's access to advisory services and financing. As it concerns the agro-rural sector, EU assistance aims to implement pilot projects, in particular to improve farmers' business standards and management.

A further aim of EU assistance is to support local development through the improved cooperation between the private sector and education, training and research institutions in order to identify and close skill gaps in the labour market and support the transformation to a knowledge-based society.

The expected **results** are the following:

- Better planning capacities at local level will lead to improved economic governance and will lead to increased competitiveness and job creation through local SMEs.

- Better investment climate and eased access to loan funding.
- Coordinated skill needs assessment will lead to an increased employability of local population and will improve the social inclusion situation in local communities.
- The overall improved economic environment will enable durable solutions for the most vulnerable.

There is interest in the donor community to cooperate in local development. The Swedish International Development Agency (SIDA), the Swiss Aid, the KfW, the United States Agency for International Development (USAID), the International Finance Cooperation (IFC), the United Nations Development Programme (UNDP), the UN Refugee Agency (UNHCR), the United Nations Children's Rights, the Emergency Relief Organisation (UNICEF) and the International Organisation for Migration (IOM) expressed their interest to support integrated local development.

Local Development Coordination Group meetings (convened by UNDP) involving relevant donors are held on a regular basis to exchange information on on-going and future programmes. Regular donor's coordination at sector and programme level will ensure synergies and complementarities of donors' interventions in this area. In addition, the EU Delegation organises donor coordination meetings as appropriate.

IPA II will provide support for the establishment and implementation of an integrated local development programme in the area of SMEs competitiveness and social inclusion. In particular, IPA II will assist private sector development with a focus on innovation and research capacity, the development of export oriented sectors, and the agro-rural and tourism sectors. This will be accompanied by assistance for the identification and preparation of investment projects and for obtaining access to local or international loan funding. Further support will improve SMEs access to advisory services and investment financing and the use of innovative financing instruments such as the WBIF and EDIF. Pilots will be implemented for IPARD related measures like the Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) approach and advisory and extension services, in particular direct support to farmers in improving their business standards and management.

IPA II will support the cooperation between the private sector and education, training and research institutions to address skill gaps in the labour market, and to increase the competitiveness of the local economy.

Active employment measures and the creation of job opportunities with a particular focus on vulnerable groups and support to the development of lesser developed areas, including rural areas or areas with a high proportion of vulnerable (including refugees and IDPs), will round off the support for the social development of local communities.

Concrete support will be provided to build better community relations and promote reconciliation in areas where populations from different groups continue to live in close proximity, but without the common spaces that are necessary for social cohesion. Education will also play an important role in this regard. In implementing such programmes/projects, the EU will apply and adapt lessons from the large body of research and evidence that has been accumulated from Northern Ireland (PEACE Programme). Besides supporting cross-community initiatives and the implementation of collaboration between the public, private and community sectors, EU considers supporting the regeneration of urban, rural and border areas that appear derelict, segregated, underused, threatening and/or unwelcoming.

The design of actions in this sector shall take into account the actions in the context of the macro-regional strategies EUSDR and EUSAIR.

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria
- Doing Business, Distance to frontier, score (WB)

3.3 Types of financing

Support can be provided primarily in the form of technical assistance, blending, delegation agreements, supplies and grants. The priority of the multi-country IPA programme is to increase regional competitiveness through better access to finance for SMEs in close cooperation with IFIs through the Western Balkan Enterprise Development and Innovation Facility (EDIF). The TAIEX instrument provides ad hoc and short-term technical assistance. EU programmes, Horizon 2020 (research and innovation), COSME (Competitiveness of enterprises and SMEs) and Consumer Programme (consumer protection) are relevant for this sector and in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

3.4 Risks

The weakness and complexity of governance and the lack of political support at higher government levels as well as the shortage of financial and human resources at municipal level may hamper the development of a programmatic framework for integrated local development and the effective support for the implementation of integrated local development actions.

Risks linked to the complexity of governance shall be mitigated through the establishment of bodies facilitating decision making such as Steering Committees and, in particular, Advisory Boards, where the relevant levels of Government will be represented. The shortage of financial and human resources at municipal level will be mitigated through the provision of technical assistance/capacity building as appropriate.

4. Education, employment and social policies

4.1 Needs and capacities in the sector

Unemployment remains very high (stood at 44.5% in 2013)⁹ and hits young people disproportionately (59.1 % of the age group 15 – 24). Grey economy and informal employment dominate. An education system not sufficiently meeting the needs of the labour market and a limited dialogue between institutions in charge of education and employment aggravates the perspectives of the unemployed. Labour and employment institutions need to strengthen their efficiency and to develop capacities to implement active labour market measures.

The absence of harmonised social protection policies affects the efficiency of the social services. In general, it lacks the institutional capacity for evaluating the needs of vulnerable.

⁹ Source: <http://arz.gov.ba/statistika/mjesečni/default.aspx?id=1189&langTag=bs-BA>, Agency for Work and Employment (Agencija za rad i zaposljavanje BiH)

The financing of social services is uneven because the revenue of social service providers depends on the economic situation of the respective region and leads to imparity in the support of vulnerable.

The situation in the education sector is characterised by insufficient capacity and governance structures with little policy coordination as defined by the complex constitutional set-up and multiple layers of government. Standards for quality are not systematically applied in the country. General education – pre-primary, primary, secondary and higher education - need further reforms. Efforts are needed in mainstreaming the on-going vocational education and training reform and to modernise the adult education and training. School management, teachers and trainers need significant professional developments and better standards. Comprehensive educational policies and practices which would address social inequality and education for all (inclusive education) do not exist. Efforts are made to facilitate the access of children with special needs to education, but access is not equally developed throughout the country. Adequate access of vulnerable children (e.g. Roma children, children in rural areas, socio-economic disadvantaged, gender, disability, minority ethnic groups, linguistic and religious minorities) to education is limited. Inadequate and deteriorated school infrastructure aggravates the situation.

The situation of Roma in Bosnia and Herzegovina is comparable to the situation in other Western Balkan countries, impaired by social exclusion, deep poverty, and limited access to healthcare, education and training, housing and employment. IPA II will support Bosnia and Herzegovina in the implementation of its Roma action strategy and related action plans in the fields of employment, housing and healthcare.

At the end of 2013, yet 110.380 humans were refugees and IDP¹⁰. Their situation remains to improve, notably through funding of sustainable housing solutions and appropriate support measures. IPA II will continue supporting sustainable housing, combined with durable social and economic integration measures in line with the principles and goals of the Sarajevo process.

Mine-contaminated areas are a particular severe legacy of the war and until today, there are fatal casualties resulting from mines. Vulnerable groups and children run a particular risk. Demining continues to be important for refugee return and economic and rural development. EU assistance will continue providing support for the clearance of mine-contaminated areas and support for mine-victims and their families.

4.2. Objectives, results, actions and indicators

EU assistance aims to support capacity building in the education sector to improve governance structures and policy coordination between the different governance levels. Further assistance will support the development of qualification frameworks at all levels of education and will assist the development of curricula in primary and secondary education. Another objective of EU assistance is the support inclusive education and the modernisation of school infrastructure.

In the employment sector, EU assistance aims to strengthen institutional capacities and to develop and implement active labour market measures. Further support aims to facilitate school to work transition and to promote entrepreneurship as an entry point to the labour market.

¹⁰ Source: UNHCR, updated as of 31 December 2013

In the social sector, EU assistance aims to support a countrywide harmonised and standardised needs-based approach for the social protection system and to reform the financing of social services. A further objective for EU assistance is the development of care services to support the social inclusion of persons at risk, including the transition from institutional to family based care.

Further objectives of EU assistance are the provision of sustainable housing and supporting measures for IDP and refugee return as well as support for the Roma population. Another objective is the support for demining of mine-contaminated areas.

The expected **results** are the following:

- A decreased number of unemployed, in particular youth unemployed, through institutional reform, active labour market measures and special measures to facilitate school to work transition.
- The education sector will be better adapted to the needs of the labour market.
- The number of early school leavers and school dropouts will be reduced.
- Teacher professional development will improve.
- Inclusive education will prevail.
- The access of vulnerable and disadvantaged to education will improve.
- A coordinated needs based approach and a reformed financing of social services will increase the sustainability of the social protection system and ensure a harmonised support for vulnerable people.
- IDP and refugee return will benefit from sustainable housing and supporting measures.
- The Roma action plan will be implemented.
- Demining will progress.

Addressing the high unemployment, in particular youth unemployment will come along with support for the recovery of the local economy. IPA II will assist labour and employment institutes to strengthen their capacities and to develop and implement active labour market measures and will support reforming labour legislation with the objective to increase labour mobility. The increase of the employment rate should in turn lead to a decrease of the share of the parallel labour market and the increased number of contributors should improve the income situation of the social services in general.

Support for special measures to facilitate school to work transitions, e.g. traineeships, career information and counselling services, work-based learning programmes for young people, including second chance opportunities, will address the high youth unemployment, together with legal and financial incentives for SMEs to deliver trainings for their employees and traineeships for young people. IPA II support will address specific programmes at all level of government to promote entrepreneurship as an entry point to the labour market, and will include training and mentoring measures to foster entrepreneurship in schools and universities to promote entrepreneurial thinking among youth.

In the education sector, IPA II will provide capacity building to improve governance structures and policy coordination between the different governance levels. Support will further develop basic qualifications frameworks at all levels of education and will assist the development of curricula in primary and secondary education. The number of early school leavers and school dropouts should reduce through better coordinating the support at national

and local levels, ensuring that traineeships and apprenticeships offer productive careers with opportunities for progression. Faculties will receive assistance to develop modules/programmes at university/master degree level for teacher professional development.

New tools and methodologies will improve the training of school principals and school teams in whole-school approaches, for inclusive education approaches and for adopting indices for inclusion. Support will be provided for the modernisation of school infrastructure. Pilot projects, including investment support will benefit schools who actively participate in programmes to end discrimination and segregation, to foster inclusive education and to promote access of vulnerable to education. Data collection and processing will be improved.

IPA II will provide support for the further development of a coordinated needs-based approach in the social protection system and for the reform of the financing of social services. The targets are a countrywide harmonised and standardised needs-based approach to social services and social benefits, notwithstanding the place of residence, study or work and an integrated budgeting and financing system for social services. Further support will target the development of care services to support the social inclusion of persons at risk, with a focus on the needs of the target groups (e.g. children, Roma, disabled, unemployed), including transition from institutional to family-based care for children deprived of parental care and children and adults with disabilities.

IPA II will accompany IDP and refugee return by providing sustainable housing solutions and supporting measures. Bosnia and Herzegovina authorities will receive support for the implementation of the Roma action plans.

IPA II will provide support for the demining of mine-contaminated areas and for the support of mine-victims and their families.

The EU is the main donor in the education sector and coordinates its activities with other donors, in particular Austria, Germany, the Council of Europe, UNICEF, Norway, and Japan. Besides the EU, the World Bank, USAID, SIDA, the Council of Europe Development Bank (CEB) and KfW are the key actors in the employment sector. The World Bank and the UN family support social policies development and the strengthening of human rights.

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria
- Employment rate % total, 15-64 years (Eurostat)

4.3 Types of financing

Support can be provided primarily through twinning, technical assistance, blending, grants, and supplies of equipment. Investments under the national programme concern mainly school infrastructure and support for the Regional Housing Programme (RHP), and Annex VII projects, aiming providing sustainable housing solutions for refugees and internally displaced persons as part of the Sarajevo process, and for the Roma facility. The IPA multi-country programme provides additional support. The TAIEX instrument provides ad hoc and short-term technical assistance.

EU programmes, the Erasmus+ programme (education, training, youth and sport), the Programme for Employment and Social Innovation (EaSI), which supports efforts in designing and implementing employment and social reforms, and the Health for Growth programme are relevant for this sector and are in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs

for participation in these programmes, following the national prioritisation process among all the EU programmes.

4.4 Risks

Regional disparities are increasing, especially as Bosnia and Herzegovina has unfavourable demographic trends with low birth rate, ageing population, and an outward migration (brain drain). The funding available to this sectors both from Bosnia and Herzegovina's own resources and through IPA II and other donor funding is not sufficient to cover all the needs of the sector. Furthermore, the areas covered in this sector are closely inter-linked and cannot be developed or implemented in isolation. There is a need to have an effective cooperation and coordination among involved ministries and agencies at all levels, including ministries responsible for economic development and the socio-economic development of rural areas. However, there is no social development strategy, existing strategies are uncoordinated and overlapping, data collection is insufficient and exchange and cooperation between the relevant bodies is poor, not at least because of political resistance to agree on common standards and strategies.

ANNEX 1 – INDICATIVE ALLOCATIONS (million EUR) per policy areas and sectors

Bosnia and Herzegovina	2014	2015	2016	2017	Total 2014-2017	Of which climate change relevant (%)
a. Reforms in preparation for Union membership	11	17	18	18	64	0
Democracy and governance	31				31	
Rule of law and fundamental rights	33				33	
b. Socio-economic and Regional development	24.7¹	11.7	13.7	13.7	63.8	0
Competitiveness and innovation: local development strategies	63.8				63.8	
c. Employment, social policies, education, research and innovation, promotion of gender equality, and human resources development	4	11²	11²	12²	38	0
Education, employment and social policies	38				38	
TOTAL	39.7	39.7	42.7	43.7	165.8	0

¹ For 2014, subject to needs assessments, indicatively EUR 15 million will be dedicated to floods recovery and reconstruction

² In addition, EUR 18 million for both 2015 and 2016, and EUR 12 million for 2017 are indicatively allocated to the Regional Housing Programme, which is implemented within the framework of the IPA multi-country programme.

APPENDIX 2: INDICATORS AND TARGETS

Table 1a: Context indicators

Indicator	Source	Baseline	Last value	
		2010	year	value
Public debt (% of GDP)	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_ecgov&lang=en	25.39	2012	27.73
Real GDP growth rate (average last three years - %)	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do	0.72	2012	- 1.1
Unemployment Rate (%)	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do	27.2	2012	28.6
GDP per capita at current prices (PPS €)	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_ecnagdp&lang=en	3.296	2012	3.419
FDI per capita €	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_ecbop&lang=en	70.8	2012	71.2

a) Table 1 b: Outcome and impact indicators *

Sector	Indicator	Baseline	Last value		Target
		2010	year	value	2017
Composite indicator (average ranking provided by eight external sources)	ELARG				
Progress made in reaching the political criteria provided	ELARG – Progress report				
Progress made on implementation of acquis	ELARG – Progress report				
Progress made in meeting economic criteria	ELARG – Progress report				
Employment rate (15 to 64 years) total %	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_siemp&lang=en	40.12	2012	39.73	

*: targets will be provided at a later stage

b) Table 2: Sector Indicators *

Sector	Sub sector	Indicator	Source	Baseline	Last value		Target
				2010	year	value	2017
Governance and Democracy	Governance and PAR	Progress made towards meeting accession criteria	ELARG – Progress report				
		Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) – 1 (Worst) - 100 (Best)	World Bank, World Competitive Forum	39.39	2012	45.25	
	Public financial management	Progress made towards meeting accession criteria	ELARG – Progress report				
	Statistics	Progress made towards meeting accession criteria	ELARG – Progress report				
		Statistical compliance - % 0 (Worst) - 100 (Best)	Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes				
Rule of law and fundamental rights	Judicial reform	Progress made towards meeting accession criteria	ELARG – Progress report				
		Composite indicator (average of Access to Justice and Judicial independence)		53.79			
	Fight against corruption and organised crime	Progress made towards meeting accession criteria	ELARG – Progress report				
		Composite indicator (average of Corruption Perception and Control of Corruption) 1 (Worst) - 100 (Best)		39.57	2012	45.64	
	Fundamental Rights	Progress made towards meeting accession criteria	ELARG – Progress report				
		Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)		30.75	2012	34.25	
	Refugees and	Progress made towards meeting accession	ELARG – Progress report				

Sector	Sub sector	Indicator	Source	Baseline	Last value		Target
				2010	year	value	2017
	Border management	criteria					
Competitiveness and Innovation		Progress made towards meeting accession criteria	ELARG – Progress report				
		Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	World Bank - Doing Business: http://www.doingbusiness.org/data/distance-to-frontier	55.33	2014	58,7	
Education, employment and social policies		Progress made towards meeting accession criteria	ELARG – Progress report				
		Employment rate (EU 2020 targets) - overall/females/minorities/vulnerable groups - Employment rate (20 to 64 years), females (%)	Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_siemp&lang=en	28.6	2012	28.1	

*: targets will be provided at a later stage